



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0249 - Create a child tax credit for the individual income tax (Stafman, Ed)

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$19,379,400)	(\$96,897,000)	(\$96,897,000)	(\$96,897,000)
Net Impact-General Fund Balance:	<u>(\$19,379,400)</u>	<u>(\$96,897,000)</u>	<u>(\$96,897,000)</u>	<u>(\$96,897,000)</u>

Description of fiscal impact: HB 249 creates a tiered, refundable, Montana individual income tax child tax credit starting in TY 2024. The credit would be \$1,200 for children under 6 years of age, and \$600 if age 6 or older. The credit phases-out based on a taxpayer's filing status and federal adjusted gross income. The proposed credit will reduce general fund revenue by \$19,379,400 in FY 2024 and \$96,897,000 in FY 2025, FY 2026, and FY 2027.

FISCAL ANALYSIS

Assumptions:**Department of Revenue (DOR)**

- Under section 24 of the Internal Revenue Code (26 U.S.C 24), a taxpayer is allowed to claim a tax credit that is equal to \$2,000 for each qualifying child of the taxpayer against their federal personal income taxes. To qualify, the child must be below the age of 17 at the end of the year. The credit amount is reduced based on the taxpayer's modified adjusted gross income, with a phase-out for income above \$400,000 for a joint return and \$200,000 for all other returns. A portion of the credit is currently refundable. The credit amount, phase-out amounts and other portions of the credit are set to change starting TY 2026. The State of Montana does not have a similar child tax credit under current law.
- HB 249 creates a state child income tax credit, which would be available starting TY 2024. To qualify for the credit, taxpayers must also be eligible for the federal child tax credit. The credit amount each taxpayer can

- claim is determined by the age of the child, the taxpayer's federal AGI, and the taxpayer's filing status. The credit is only available to resident taxpayer returns.
3. Taxpayers who claim a dependent on their return can claim a credit of up to \$1,200 if the child is below the age of 6, and up to \$600 for children between the ages of 6 and 16.
 4. The credit amount is reduced by \$25 for each \$1,000 the taxpayer's income exceeds the income threshold amount. For joint returns, the income threshold amount is \$65,000. For head of household returns, the income threshold amount is \$55,000. For all other returns, the income threshold is \$45,000.
 5. The HB 249 credit is fully refundable and can be claimed by qualifying tax filers with no state taxable income.
 6. In TY 2021, 131,094 full-year and partial-year taxpayer households claimed at least one dependent on their Montana personal income tax return. These households claimed a total of 246,818 dependents.
 7. The Montana income tax return does not contain the age of the dependents.
 8. Of the 131,094 households that report a dependent, 95,192 households would meet the income requirements to qualify for a credit if their dependent is below the age of six.
 9. If all dependents were below the age of six, these households would qualify for \$173,817,450 in potential child tax credits.
 10. Of the 131,094 households that report a dependent, 79,072 households would meet the income requirements to qualify for a credit if their dependent is between the ages of 6 and 16.
 11. If all dependents were between the ages of 6 and 16, these households would qualify for \$76,248,050 in potential child tax credits.
 12. According to the Montana Census and Economic Information Center's Population Projections, children between the ages of 0 and 5 will, on average, comprise 29.75% of the population between the ages of 0 and 18 during TY 2024, TY 2025, TY 2026, and TY 2027. At the same time children age 6 and 16 will comprise an average of 59.25% of the 0- to 18-year-old population during the same time period.
 13. It is assumed that the same proportion of the population in each age range will qualify for the child tax credits.
 14. With children between the ages of 0 and 5 comprising 29.75% of the below 18 population, and with \$173,817,450 in potential credits, it is assumed at a total of \$51,718,235 ($\$173,817,450 \times 29.75\%$) credits will be claimed each tax year for children between the ages of 0 and 5.
 15. With children between the ages of 6 and 16 comprising 59.25% of the population below the age of 18, and with a potential of \$76,248,050 in qualified credits, it is assumed that a total of \$45,178,678 ($\$76,248,050 \times 59.25\%$) credits will be claimed each tax year for children between the ages of 6 and 16.
 16. With \$51,718,235 credits claimed for dependents between the ages of 0 and 5 years old, and \$45,178,678 credits claimed each year for dependents between the ages of 6 and 16, a total of \$96,897,000 in child tax credits would be claimed each year under the proposed bill.
 17. As this is a large credit that taxpayers will consistently qualify for, it is assumed that some taxpayers will change their withholding as a result of the new tax credit. It is assumed that 20% of the credits claimed in TY 2024 will reduce withholding collections in FY 2024. The remaining 80% of credits will be claimed in FY 2025. It is assumed a similar distribution continues in future tax years.
 18. With \$96,897,000 in total credits each tax year, and with a 20% / 80% revenue distribution, the proposed credit would reduce general fund revenue by \$19,379,400 in FY 2024. General fund revenue would decrease by \$96,897,000 in FY 2025, FY 2026, and FY 2027.
 19. The changes made by HB 249 can be made as part of the DOR annual change processes. The department does not expect to incur any significant additional costs because of this bill.

<u>Fiscal Impact:</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
FTE	0.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	(\$19,379,400)	(\$96,897,000)	(\$96,897,000)	(\$96,897,000)
TOTAL Revenues	(\$19,379,400)	(\$96,897,000)	(\$96,897,000)	(\$96,897,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$19,379,400)	(\$96,897,000)	(\$96,897,000)	(\$96,897,000)

Sponsor's Initials	Date	 Budget Director's Initials	1-20-23 Date
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